For the 52 weeks ended January 1, 1983, the 52 weeks ended January 2, 1982, and the 53 weeks ended January 3, 1981
Safeway Stores, Incorporated and Subsidiaries (thousands)

	1982	1981	1980
Sales	$17,632,821	$16,580,318	$15,102,673
Cost of sales	13,628,052	12,945,923	11,816,733
Gross profit	4,004,769	3,634,395	3,285,940
Operating and administrative expenses	3,653,561	3,363,478	2,999,130
Operating profit	351,208	270,917	286,810
Interest expense (Note D)	129,484	120,393	99,614
Other (income), net (Note E)	(26,536)	(15,822)	(16,485)
Income before provision for income taxes	248,260	166,346	203,681
Provision for income taxes (Note F)	88,600	58,062	74,541
Net income (per share: $6.11, $4.15 and $4.94)	159,660	108,284	129,131
Retained earnings at beginning of period	1,034,549	994,165	932,911
Cash dividends on common stock (per share: $2.65, $2.60 and $2.60)	(69,228)	(67,900)	(67,900)
Additions resulting from stock acquisitions			16
Retained earnings at end of period	$ 1,124,981	$ 1,034,549	$ 994,165

See accompanying notes to consolidated financial statements.

For the 52 weeks ended January 1, 1983, the 52 weeks ended January 2, 1982, and the 53 weeks ended January 3, 1981
Safeway Stores, Incorporated and Subsidiaries (thousands)

	1982	1981	1980
Funds provided:			
Net income	$159,660	$108,284	$129,138
Add charges (credits) to income not requiring funds:			
Depreciation and amortization	242,371	226,001	204,469
Increase in accrued claims and other liabilities	16,188	12,129	17,144
Increase (decrease) in deferred income taxes	(12,322)	3,573	739
Total funds provided from operations	405,897	349,987	351,490
Additions to long-term debt	228,293	168,009	160,126
Retirements or sales of property	153,492	156,227	115,876
Exchange rate effects on property and long-term debt	29,697	33,966	(8,934)
Total funds provided	817,379	708,189	618,558
Funds used:			
Additions to property	511,917	518,330	493,005
Payments on long-term debt	94,618	79,033	64,836
Cash dividends on common stock	69,228	67,900	67,900
Cumulative translation adjustments	29,628	20,973	(7)
Addition to excess cost of investment in subsidiaries over net assets at date of acquisition	—	14,077	1,283
Other uses, net	6,783	9,142	4,478
Total funds used	712,174	709,455	631,495
Increase (decrease) in working capital (Note J)	$105,205	$ (1,266)	$ (12,937)

See accompanying notes to consolidated financial statements.

As of January 1, 1983, January 2, 1982 and January 3, 1981
Safeway Stores, Incorporated and Subsidiaries (thousands)

Assets	1982	1981	1980
Current assets:			
Cash	$ 63,808	$ 44,075	$ 115,758
Receivables	73,105	72,180	56,633
Merchandise inventories (Note A):			
FIFO cost	1,627,440	1,496,775	1,269,560
Less LIFO reductions	289,450	276,339	256,093
	1,337,990	1,220,436	1,013,467
Prepaid expenses and other current assets	142,642	128,984	83,809
Total current assets	1,617,545	1,465,675	1,269,667
Other assets:			
Licenses, notes receivable and investments	49,616	40,814	31,775
Deferred income tax charges	7,220	—	—
Excess cost of investment in subsidiaries over net assets at date of acquisition, less amortization	14,301	16,234	2,859
Total other assets	71,137	57,048	34,634
Property:			
Land	174,623	159,113	138,201
Buildings	279,736	232,139	176,631
Leasehold improvements	403,413	375,407	363,143
Fixtures and equipment	1,610,584	1,497,632	1,336,333
Transport equipment	165,761	155,189	161,763
Property under capital leases	1,140,436	1,187,204	1,217,075
	3,774,553	3,606,684	3,393,146
Less accumulated depreciation and amortization	1,572,602	1,477,092	1,363,906
Total property, net	2,201,951	2,129,592	2,029,240
Total assets	$3,890,633	$3,652,315	$3,333,541

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	1982	1981	1980
Current liabilities:			
Notes payable (Note G)	$ 88,028	$ 141,208	$ 116,679
Current obligations under capital leases	45,564	46,384	44,855
Current maturities of notes and debentures	13,845	10,406	5,880
Accounts payable	648,632	868,143	726,429
Accrued salaries and wages	149,492	136,638	129,457
Other accrued expenses	142,603	128,075	102,074
Income taxes payable	11,257	21,912	30,108
Total current liabilities	1,399,421	1,352,756	1,155,482
Long-term debt:			
Obligations under capital leases (Note H)	767,309	809,393	844,011
Notes and debentures (Note I)	488,877	328,223	207,218
Total long-term debt	1,256,186	1,137,616	1,051,229
Deferred income taxes	—	5,102	1,526
Accrued claims and other liabilities	97,931	81,743	69,614
Commitments and contingencies (Notes C, H, K, & L)			
Stockholders' equity (Notes M & N):			
Common stock – $1.66⅔ par value			
Authorized 75,000,000 shares			
Outstanding 26,149,743; 26,115,917 and 26,115,917 shares	43,583	43,527	43,527
Additional paid-in capital	64,573	63,436	63,436
Cumulative translation adjustments (Note B)	(96,042)	(66,414)	(45,441)
Retained earnings	1,124,981	1,034,549	994,165
Total stockholders' equity	1,137,095	1,075,098	1,055,687
Total liabilities and stockholders' equity	$3,890,633	$3,652,315	$3,333,541

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MAY 1983
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The bold lettering that spells out Safeway's mission on the opposite page symbolizes the boldness of spirit with which we face the future.

We cannot know or control the future, but we can plan, prepare and manage for the challenges and opportunities it will bring.

Our strategic management process was developed with that in mind. Through rigorous self-examination we have analyzed our strengths and weaknesses and defined ourselves in relation to customers, employees, stockholders and our best competitors. Having articulated our mission—where we want to go—we are mapping out routes to take us there.

Strategic management is not an end in itself; it is merely a means whereby events in an ever-changing environment can be put into context and evaluated in ways that lead to the most effective course of action.

Our mission lies at the heart of this process. It incorporates five elements:

- To be a *growing* company. Growth comes from selling more to existing customers, attracting and keeping new ones, and expanding operations.
- To be a *profitable* company. Profitability fuels growth and reflects how well we meet our customers' needs.
- To be a *world-wide* company. Beyond the obvious benefits of increased sales and earnings from foreign operations, a multinational presence minimizes the impact of economic downturns in any one country.
- To be a *retailer of groceries.* Food is the primary reason shoppers go to supermarkets; groceries are our basic strength. We will reinforce it with improved presentation, greater selection and more aggressive merchandising.
- To be a retailer of *related consumer goods and services.* Consumers like the convenience of one-stop shopping, so we will actively promote related goods and services that contribute to growth and profitability.

To fulfill this mission, we have adopted six major objectives, broad in scope but specific in purpose. As tangible statements of principle, they represent what Safeway stands for and the higher ideals we seek.

In the following pages, you will see that the objectives focus on people: satisfied customers, dedicated employees, discerning stockholders. Our objectives are also results-oriented, aimed at achieving excellence and sustaining a competitive advantage. They are:

To attract and retain customers by meeting their needs with quality, service and value.
Using creative market research to identify consumer preferences—and following up quickly with a competitively superior combination of quality and service—will bring shoppers in today and keep them coming back tomorrow.

To operate at the lowest cost consistent with providing quality and value.
Only by trimming every unnecessary expense can we give customers the merchandise and services they want at prices they like.

To be innovative, aggressive and productive in the operation of our business.
Safeway is exploring new ideas and emerging technology to support growth, enhance productivity and cement its innovative leadership position in the industry.

To attract, develop and reward quality people to operate our company.
Bright, friendly and effective employees, well-trained and highly motivated, hold the key to Safeway's success.

To return value to stockholders through real earnings growth and a strong financial position.
Safeway's owners have the right to expect good results. We in turn are obliged to protect their investment and enhance its value.

To forge a partnership among all employees to sustain the growth and vitality of our company.
Pride, unity and cooperation—the shared values of 156,000 Safeway employees—will shape the company's destiny.

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HIGHLIGHTS (in thousands, except per share figures)

	1982	1981*	1980*†
Sales	$17,632,821	$16,580,318	$15,102,673
Net income	159,660	108,284	129,138
—per share	6.11	4.15	4.94
Dividends per share	2.65	2.60	2.60
Stockholders' equity	1,137,095	1,075,098	1,055,687
—per share	43.48	41.17	40.42
Market price range	50¼-26¼	37⅛-24½	36¼-26

*Restated—see Note B to consolidated financial statements. †53 weeks.

Message to Stockholders

Safeway made excellent progress in 1982, achieving record results despite a troubled economy and intense competitive pressures. We are especially pleased with this strong performance because, to a large extent, it reflects the success of a concerted effort to improve our sales position and ensure long-term profitability.

Peter A. Magowan, Chairman of the Board and Chief Executive Officer, and Dale L. Lynch, President and Chief Operating Officer

Consolidated sales in fiscal 1982 increased 6.3% from the previous year to $17.63 billion, while net income climbed 47.5% to $159.7 million or $6.11 per share. Our 1981 results are restated under provisions of Financial Accounting Standard No. 52, pertaining to foreign currency translation, which reduced the earnings previously reported for that year by $6.3 million (24¢ per share).

Sales again outpaced food price inflation but continue to be adversely affected by the recession, the peso devaluation in our border areas, foreign currency declines in all our international operations, and the closing of our Omaha Division. Still, we are encouraged by the continuation of *real* sales growth, particularly in our U.S. operations where we have worked hard to build and sustain increased volume. During 1982, both tonnage and customer transactions were up in continuing stores.

The real sales increase contributed significantly to the resurgence in earnings growth, as did a number of other factors. Some of the latter were one-time-only occurrences, such as the absence of a prolonged price war in the Mid-Atlantic region that negatively affected results in 1981 and the gain on sales of our facilities in Omaha and Memphis. Others were beneficial factors beyond our control—a smaller LIFO charge ($13.1 million in 1982 vs. $20.2 million in 1981) and lower interest rates. But much of the earnings improvement was due to factors we could, and did, control. For example, we have:

- Made considerable progress in achieving parity with competitors in our labor costs. Working with union leadership, we have negotiated wage rates that more accurately reflect prevailing economic conditions and pay scales, and have removed or modified restrictive language in many of our labor contracts;
- Made our operations more efficient and improved productivity throughout the company. Over the past two years we have reduced our meat prefabricating plants from 11 to three, discontinued several produce prepackaging operations, consolidated one division's accounting function with another's, combined production of two biscuit plants into one facility, and streamlined our non-store workforce by more than 3,000 positions;
- Realized significant savings from advanced technology. As of year-end 1982 approximately 915 stores were equipped with computer-assisted power management systems to monitor and control energy use. We installed another 141 checkstand scanning systems last year and expect to have a total of 500 stores with them by the end of 1983;
- Exercised considerably tighter control over expenses. We have done a better job of managing inventories and cash, purchasing merchandise and supplies, operating warehouses and trucks, controlling salary expense and accident costs, and administering accounting and data processing services. Most importantly, we have achieved these savings in areas that do not affect customer service. Our expenses as a percent of sales increased by only 0.4% in each of the last two years—after growing at more than twice that rate in 1980.

We are pleased to report that the Board of Directors has recently taken action on several matters of interest and benefit to stockholders. At its October meeting the Board increased the quarterly dividend to 70¢ per common share, raising the annual payout to $2.80 per share. In December it approved a dividend reinvestment and stock purchase plan, to be effective with the dividend for the second quarter of 1983. Under the plan stockholders may use their dividends to buy more shares at 5% below the market price; they may also invest additional cash, up to $5,000 per quarter, to purchase stock at the market price. In either case, there will be no brokerage commission charged to stockholders. Finally, at its February meeting the Board declared a 2-for-1 split of common shares. This will be accomplished by a 100% stock distribution to be made March 31 to stockholders of record on March 7. We believe these steps will make Safeway shares more attractive to a broader range of investors.

Despite the general slowdown in construction activity last year, Safeway maintained a substantial store building program. In 1982, we opened 153 stores, including 38 Liquor Barns. Of this total, 91 are located in areas we had not served previously. During the coming year we also expect to open 153 stores.

As noted on page 1, we have formulated a strategic plan which incorporates six major objectives. These are described in detail on the following pages. A key element of one objective is to divest ourselves of operations with poor prospects so we can redeploy our assets into areas with a greater potential return on investment. Thus our Omaha Division became Safeway's first major divestiture since we sold our New York Division in 1962. The latter move we regarded as one of the best financial derisions the company ever made, and we think the Omaha sale, while painful, is in the same category. Applying the same philosophy elsewhere, we

also left the Memphis and southwest Missouri markets. These facilities were sold at a profit, with the funds reinvested in more promising opportunities.

For example, during 1982 we bought 35 stores from others, opened a new milk plant in Houston, and made substantial progress in the development of our Liquor Barns. The Liquor Barns represent a good example of the kind of commitment we are able to make to a new venture once we are convinced it will succeed. From a start of one store in 1979, we progressed to 67 by the end of 1982 and will add several more this year.

We are also committed to work cooperatively with growers and suppliers in the best interests of consumers. Ever since Safeway initiated the first Farmer-Consumer campaign in the U.S. half a century ago, we have stood ready to promote consumption of agricultural products when surplus harvests or other conditions threaten growers with ruinous losses. Such was the case last fall when California's beleaguered raisin industry was in danger of losing export business to foreign growers who rely on government subsidies. We committed to double our raisin purchases over what we bought in 1981, and conducted a major promotion informing consumers of the fruit's versatility and nutritional value.

Nutrition also figures prominently in another company program currently under way. As noted later in this report, consumers have become increasingly interested in good health and are changing their eating habits accordingly. To supplement the dietary information already distributed through our stores and on labels of Safeway Brands, we recently launched a national nutrition awareness program. Developed by our corporate nutritionist with the assistance of leading health experts, the program provides shoppers with accurate, understandable information so they can make better food buying decisions. Among the materials available at no charge at special centers in all U.S. Safeway stores are a bimonthly magazine, pamphlets on various nutrition topics, and cards for customers to submit questions and comments.

Last year marked the retirement of some key executives who have made invaluable contributions to Safeway during long and distinguished careers. G. E. Brown, vice president responsible for our advertising, market research and international development activities, retired at year's end following 40 years of exemplary service. Three of our retail division managers, vice presidents John W. Warthan (46 years), William M. Langley (35 years) and Pete Martin (33 years) also left in 1982. In March 1983 we bid farewell to another company "institution"—45-year veteran A. G. Anselmo, chairman and chief executive officer of Canada Safeway Limited. Mr. Anselmo was recently elected a director of the parent company so we will continue to benefit from his vast experience.

In related developments, U.S. regional vice presidents John Bell, Fred E. MacRae and William H. Maloney were named executive officers, and newly appointed retail division managers Robert R. Taylor, Richard F. Wilson and Eugene V. Podoll were elected vice presidents, as was real estate division manager Gerald L. McGinnis. The Board also accepted the resignation of Director Malcolm P. Grover, a retired senior vice president. We will miss his wise counsel and gratefully acknowledge his dedicated service.

We approached 1983 as we did 1982—with cautious optimism that we can continue to build on the progress we have made in our operations over the past two years. In 1983, there are a number of factors which we think will benefit the industry as a whole. These are:

• *A continued low rate of food price inflation.* High inflation hurts consumption and causes our costs to rise. The resulting cost-price squeeze hurts everyone.

• *A slower increase in labor costs.* The industry has been successful in keeping wage and benefit costs in line, and has made considerable progress in improving productivity.

• *Further moderation in other key expenses.* Supermarket firms were particularly hard hit by soaring interest rates and diesel fuel costs, and should realize substantial benefits if these expenses moderate as expected.

• *An increasingly willing partner in the federal government.* The food industry has benefited from the deregulation of the trucking industry and the incentives to explore for oil and natural gas, and stands to benefit further from accelerated depreciation, targeted jobs hiring, lower individual income taxes and the new highway legislation. Although we will have to pay higher fees and increased diesel fuel taxes, the new, more generous regulations on trailer length and payload will improve productivity in the hauling of merchandise.

• *Significant demographic changes.* While the population as a whole will grow throughout the '80s at only 1% a year, the 25 to 44-year-old segment will increase at more than three times that rate. This age group is our strongest customer base, and the one to which the superstore is mainly targeted.

• *Relaxed restrictions on acquisitions.* One of the industry's perennial problems is over-capacity. A more realistic government attitude toward acquisitions has enabled the industry to consider them as an alternative to expanding solely through new store development. This improved environment is expected to continue in the immediate future, and if it does, it should allow population growth to more closely approximate square footage added than has been the case in the last several years.

All of these factors will help Safeway, perhaps even more than our competitors. For example:

• As the most heavily unionized company in the industry, we stand to benefit proportionally more from moderation in wage and benefit demands.

• As the operator of the world's largest private trucking fleet, we stand to gain more than others from recently enacted federal legislation permitting backhauls, longer trailers and heavier payloads.

• With over 500 superstores now and more on the way, we are ready for today's customers and prepared for tomorrow's—particularly working women. With more and more people moving to the South and the West, we will be in those areas to serve them. And with knowledge we have acquired in Mexico, we are capitalizing on the marketing opportunities unfolding with the dramatic expansion of the Hispanic population.

As for the balance of 1983, it appears that the long-awaited economic recovery is finally under way. With recession psychology gradually receding and consumer confidence on the rebound, we look forward to another good year.

March 4, 1983

TO ATTRACT AND RETAIN CUSTOMERS BY MEETING THEIR NEEDS WITH QUALITY, SERVICE AND VALUE

The key to success in our business is disarmingly simple: To grow and prosper as a company we must attract more customers into our stores and convince them to remain Safeway shoppers. And this means adhering closely to another fundamental precept of retailing: Give customers what they want.

Like most axioms, these are simple in theory but

sometimes complex in execution. Today's consumers are too diverse, too discriminating and too demanding to fit a single pattern. The task of satisfying their needs may be an elementary one, but it poses our greatest challenge.

Although shopper preferences vary from one trading area to another, we believe we can attain a competitive advantage wherever we operate by achieving excellence in three categories. These are quality, service and value—superior *quality* in our products, facilities and people; fast, friendly *service* throughout our stores; and good *value* in the quality-service-price combination we offer.

At the same time, we will channel more creative energy into our market research activities. We intend to be *pro*active rather than *re*active, to identify emerging consumer interests earlier so we can satisfy them sooner. Here too, our objective is simple. The stores we build, as well as the features and merchandise we put in them, should reflect what customers want to buy rather than what we want to sell.

Despite their different

expectations, shoppers still list many of the same criteria when asked to give their reasons for choosing a supermarket. Those mentioned most frequently are:

• *Quality of perishables* (freshness, appearance, taste);
• *Convenience* (location, hours, specialty departments and services, range of merchandise, access to

parking, speed of checkout);
• *Cleanliness* (neat overall appearance, uncluttered aisles, well-groomed employees, spotless floors);
• *Friendliness* (helpful staff, attentive managers);
• *Selection* (good assortment within many categories); and
• *Prices* (consistent with quality and services featured and in line with the competition).

The combination of these characteristics in shoppers' minds—a store's image—weighs heavily in their decision of where to shop. But while *perceptions* may draw customers into a supermarket today, *performance* brings them back tomorrow.

At Safeway, we are determined to listen to our customers and respond to their needs. Accordingly, we will continue tailoring individual stores to local markets, seeking out the unique combination of factors that appeals to shoppers in each particular trading area. That may mean stocking extensive lines of gourmet foods and specialty wines in affluent communities, camping equipment and fishing tackle in recreational areas, and everything from fresh tortillas to tofu in neighborhoods with distinct ethnic compositions.

We will emphasize the basics, too—particularly the store selection criteria noted previously. Consumer research indicates that the factor shoppers consider most important when comparing supermarkets is the perishables operation. Produce tops the list, followed closely by meat. Because the presentation and selection of perishables vary considerably from one retailer to another, these departments provide good opportunities to differentiate our stores from our competitors'.

In produce—which shoppers have "rediscovered" for

its freshness, nutritional value and low cost—we are pressing for improved quality and a wider range of items and sizes. At the meat counter, we are displaying more of the leaner beef cuts today's health-conscious customers want, along with increased selections of poultry and seafood.

In other departments, we are steadily expanding the array of merchandise and services consumers want in a one-stop shopping environment. Under the same roof at many Safeway stores, busy shoppers can fill prescriptions and find hundreds of over-the-counter drug items, select from a wide assortment of leading cosmetics, choose from scores of imported and domestic cheeses and wines, browse through complete natural foods centers—even buy live lobsters from special display tanks.

Our customers also tell us that extensive selections within certain product lines are important. Our stocking plans are designed accordingly, with reduced "width" in some categories to permit more "depth" in others. Shoppers say they want a good mix of nationally advertised brands and private-label products, too. We intend to maintain a proper balance of both.

Two other items on consumers' "shopping lists" are reasonable prices and good service. With pricing, our objective is to be competitive with other stores offering comparable value on products and services of similar quality. With service, our intention is to be competitive in this as well; we want our customers to count on Safeway for consistently fast, friendly and reliable service.

And finally, consumers want to shop in pleasant surroundings. They expect a supermarket to be attractively designed, well-organized and—above all—clean. The store must be convenient to their homes or commute routes, too, with easy access and ample parking. Here again, we will continue to deliver.

Consumers are the focal point of all we do. When they speak, we listen—*and* respond.

TO OPERATE AT THE LOWEST COST CONSISTENT WITH PROVIDING QUALITY AND VALUE

Safeway does not want to be in the mold that generally characterizes large, mature organizations. We will not accept the status quo and are encouraging our people to ask "why?"—to develop a "creative dissatisfaction" with institutionalized procedures that have outlived their usefulness.

The company is leaner and stronger for the experience.

We still haven't found all the answers, but we know we are headed in the right direction. With aggressive cost-cutting policies and streamlined operations, we are eliminating inefficiencies and improving effectiveness while finding ways to serve our customers better.

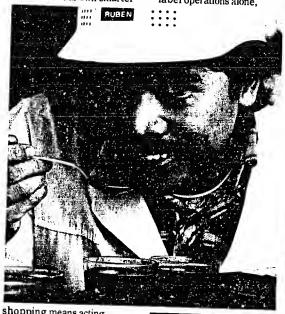
Our goal is to run our operations at their simple best. As the business environment changes, so must the way we do business. We cannot afford to get bogged down in old habits when new opportunities present themselves daily.

Many people—including consumers, suppliers, politicians, even some of our own employees—don't realize how slim profit margins are in the supermarket industry. No matter how often we say it, a lot of them are surprised to learn that Safeway, like most large grocery chains, nets just under one cent on every dollar's worth of merchandise sold.

With so little room for error, economical operating procedures are a major factor in the success equation. To earn that slight but telling edge over our competitors, it is not enough to simply

eliminate unnecessary expenses; we must continually seek new and innovative ways of procuring, transporting and marketing the millions of tons of products we handle each year.

While encouraging customers to look for quality, service and value, we've taken that advice to heart ourselves. Our own smarter shopping means acting quickly on vendors' promotional offers and consolidating purchases of certain equipment, supplies and services.



We're modifying the roles of our buyers in tandem with these changes. Because they are responsible for spending by far the largest portion of our sales dollars, buyers can effect significant savings. We are training ours to be more discerning to ensure Safeway gets the best possible cost on every purchase. To enhance their effectiveness in this, we are equipping them with state-of-the-art information-management tools.

We are convinced that those closest to a job have the best sense of where cost savings and greater efficiencies can occur. Accordingly, we are developing more ways to elicit employee ideas—from all levels, in all positions. Evidence of the progress we are making on this front is considerable. Through the expense-reduction program in our private-label operations alone,

employee input produced several million dollars in tangible savings during 1982.

We also believe strongly in the potential of technology to help us increase efficiency, improve productivity and reduce costs.

With *store scanner installations* expected to number nearly 500 by the end of this year, we are on the threshold of reaping huge benefits from the vast data they generate. The greatest potential of computer-assisted checkout systems lies in the development of more sophisticated methods of applying that data. Late in 1982 we organized a Scanner Market Research Group to speed analysis of item movement. Not only will this improve our merchandising strategies, it will also produce additional revenue as we sell valuable market information to interested suppliers.

Safeway is among 13 pilot companies involved in the development of the *Uniform Communication System* (UCS), an electronic means of placing orders with vendors and receiving invoices. No paperwork is prepared until the transaction is complete. Although UCS is still an experiment and is not yet cost-justified, we are confident that our ground-floor participation will pay huge dividends as industry suppliers move closer to standard procedures.

Our decision to invest heavily in *power management systems* (PMS) several years ago is already paying handsome dividends in the form of substantially lower energy use. More than one-third of our stores use computer-driven PMS to regulate and monitor power consumption.

We realize that new technology can pose a threat to the comfortable familiarity of doing things the old way. For that reason, we are showing our employees that automated systems can expand horizons, simplify work, reduce boredom, create exciting new career opportunities and help Safeway serve customers better at lower costs. We want to be on the leading edge because new technology can give the far-thinking retailer a competitive edge.

In some ways, we have a built-in advantage. Our distribution system, for example, includes some of the most advanced warehouse storage and retrieval systems in the industry, and a truck fleet second to none. Efficient as these operations are, we intend to streamline them even further and realize significant savings in our merchandise handling costs. To that end, we are re-examining trucking routes and store delivery schedules to increase efficiency and reduce fuel expenses, and are combining deliveries and mixing loads to make maximum use of trailer space.

In a related development, we have been encouraged by more favorable transportation regulations enacted in recent years. Under the provisions of a 1982 law, for example, longer trailers and heavier loads may travel over more portions of the interstate highway system and principal access roads in many states. Previously, certain states restricted trailer length and weight specifications to levels below federal standards. This meant separate, less efficient trucking equipment covered routes through these states—or carriers bypassed them altogether, increasing mileage

and fuel costs. For Safeway, the net result of the new law should be lower landed costs on much of the merchandise we buy.

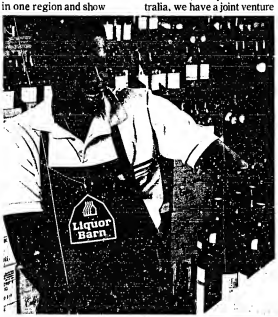
"Backhauls" improve the efficiency of our own truck operations considerably. Since passage of the Transportation Act of 1980, which effectively deregulated the trucking industry, grocery manufacturers who use uniform delivered pricing systems have been permitted to grant us pickup allowances when we carry products from their depots to our warehouses. Safeway trucks that would otherwise return from store deliveries empty now bring back merchandise at lower delivered costs.

We will vigorously pursue these and other opportunities to reduce operating expenses. Everything we do to cut costs—without weakening our commitment to give customers service, quality and value—goes straight to the bottom line.

TO BE INNOVATIVE, AGGRESSIVE AND PRODUCTIVE IN THE OPERATION OF OUR BUSINESS

In recent years Safeway has come to be known as one of the industry's leading innovators. We are pioneering concepts today that may well become retailing standards tomorrow.

Our broad geographic expanse enables us to test creative new ideas in a variety of social and economic environments. Ideas that work in one region and show promise of succeeding elsewhere can be spread quickly throughout our operating areas.



Some of our most innovative merchandising concepts have been developed through this experimental process. Our natural foods centers, service cheese shops, expanded wine sections, pharmacies, cosmetic centers and full-line floral departments all began as pilot installations. All have since proliferated rapidly throughout the company following initial consumer acceptance in various test markets.

We have also taken the lead in aluminum recycling and magazine advertising, and have begun a comprehensive analysis of in-store financial services. We expect approximately 250 automated teller machine (ATM) installations by year-end.

Beyond our U.S. borders, we continue to explore innovative approaches to further participation in foreign markets. In addition to our long-established retail operations in Canada, Europe and Australia, we have a joint venture

agreement with a leading chain store operator in Mexico, management assistance contracts in the Mideast, and an association with a major trading group in Japan. The latter accord provides for mutual import-export activities and a formal information exchange program between Safeway and four leading Japanese retail firms. This should speed development of our small but promising private-label export operation and help expand our long-standing import activity.

Like other dynamic companies, we view change as an ally rather than an adversary. It stimulates new thinking and inspires fresh ideas. It also provides us with an opportunity to improve our competitive position; when we anticipate change and respond quickly with a good idea, we have the distinct advantage of being first.

Perhaps the most visible evidence of this commitment to progress is our aggressive pursuit of new store formats. Three of our newest superstores—one in Oklahoma, two in Texas—depart radically from traditional architecture with bold, open-girder construction and futuristic interior design. A fourth version of this revolutionary concept will open next fall in California. (See page 32 for more about these stores.)

Two other experimental formats, specialty gourmet stores and "farmers markets," have also evoked consumer interest—and considerable attention within the supermarket industry. We are learning much from these stores and are incorporating this knowledge into our conventional merchandising plans.

Similarly, through our warehouse-type food stores, discount liquor outlets and in-store tortilla bakeries we have gained valuable insights

into specialized marketing while expanding our sales base. Liquor Barns have been particularly successful in this regard; they are now our fastest growing specialty stores.

The success of Liquor Barns typifies the aggressive, action-oriented performance prevalent in today's Safeway. To generate additional sales as the marketplace becomes increasingly segmented, we must find creative new approaches to customer satisfaction. This involves an element of risk, not only for the company but for those who bring ideas forward and struggle to turn them into reality. With the Liquor Barn experiment, we gave our people virtual autonomy and encouraged them to take whatever prudent risks were necessary to make the concept work. We will continue to seek out and reward those who translate ideas into action.

Although diversification figures prominently in Safeway's future, our primary focus will continue to be on what we do best: grocery retailing. Every day some four million customers pass through our doors to buy food and other household necessi-

ties. To increase sales in these categories and draw attention to related offerings, we are encouraging the use of new themes and innovative merchandising techniques that put flair and excitement into our stores. Grocery shopping should be fun, and can be with creative promotions and appealing displays.

To be of practical value

in our low-margin business, imaginative concepts and aggressive marketing plans must be productive. We are making sure that all our people—from merchandisers to store managers to accountants to truck drivers to checkout clerks—are continually aware of the "productivity consequences" of everything we do.

The key to increased output is a well-trained, highly motivated workforce. Time and money spent showing employees how to do their jobs well—and encouraging them to find ways to do them better—will do more to improve productivity than all our investments in new technology and modern equipment.

TO ATTRACT, DEVELOP AND REWARD QUALITY PEOPLE TO OPERATE OUR COMPANY

The employees pictured in this report are among the tens of thousands Safeway has hired over the years to help the company grow and prosper. They are people—bright, friendly and effective people—serving other people. Without them, Safeway is little more than bricks, mortar and inventory.

Simply attracting employees is not difficult, especially in these times of high unemployment. We see many job-seekers drawn by Safeway's reputation for paying good wages and providing solid benefits. Attracting *quality* people is something else. We need people who enjoy serving people. We need people who are quick to learn, eager to take on challenges and responsibilities; people with the initiative to work without always being told exactly what to do; people who take pride in the fact that as Safeway employees, they help satisfy one of mankind's most fundamental needs.

To fill our ranks with more men and women who fit that description, we have set high standards for those who wish to join us. Beyond the usual qualifications required of applicants for jobs in the industry, the prospective Safeway employee must complete an intensive interview process—and for some positions, a rigorous battery of tests.

We take these extra steps for good reason: The success of our stores, warehouses and plants depends almost entirely on the caliber of people who staff them. In the stores, especially, it only takes one employee to "make or break" us in the eyes of a customer. A single thoughtless remark or discourteous act can undo in a moment all the good will thousands of our people have worked years to build.

Hiring the right people is just the beginning. Once on board, our employees must be trained, motivated and challenged to produce the excellent results we seek. This job never ends. Safeway managers at all levels are encouraged—and expected—to cultivate an atmosphere in which employees can realize their full potential. Beyond self-fulfillment for our people, a supportive environment can create beneficial long-term effects for the company. In such a climate, employees tend to achieve greater output—and a workforce characterized by exceptionally productive people provides a decisive competitive advantage.

Closely related to training and development is employee evaluation—another area we are emphasizing. Our people want to know where they stand. To make sure they receive timely feedback, we plan to see that *all* employees have performance appraisals at least once a year.

Our experience shows that employees want to perform well and work hard to help achieve company goals—*when* they know what is expected of them. In the months ahead, we will ask our people to direct their individual efforts toward attainment of Safeway's mission and objectives.

We are also working on better ways to assess candidates for promotion. The Retail Career Development Center (RCDC) program, in effect throughout the United States, puts assistant store managers under the watchful eyes of trained observers for several days as they perform duties simulating those of a store manager. The RCDC is one of the most productive assessment programs we have—not only because it helps participants better understand their own strengths and weaknesses, but because it gives Safeway the objective information needed to fairly evaluate candidates for promotion.

In all of these activities, our commitment to equal opportunity governs—not just because it's required by law; not only because it represents good corporate citizenship; and not simply because we feel a moral responsibility to do so. We

practice equal opportunity for sound business reasons. Hiring and promoting solely on the basis of individual ability, initiative and demonstrated performance produces a stronger, more effective workforce. It also ensures maximum utilization of our richly diverse pool of human talent. When we create competition for advancement by considering *every* employee, we promote better people.

Another goal of our personnel practices is to enable employees to share in the success they make possible. Although contract provisions and work rules sometimes get in the way, our ultimate aim is to compensate our people to the extent they make the company prosper.

In many of our operating areas, the biggest challenge ahead is to compete successfully against a growing number of operators whose wage rates are lower than ours. We will continue to work with union leaders to remain competitive and thereby further our mutual interests. Our goal is parity, an equal footing in labor costs with competitors. As Safeway prospers, so do our people.

TO RETURN VALUE TO STOCK-HOLDERS THROUGH REAL EARNINGS GROWTH AND A STRONG FINANCIAL POSITION

The individuals (and institutions) who own some 26 million shares of Safeway common stock expect results. They expect short-term results to support dividends, and long-term results to protect their equity in the company.

Safeway's entire strategic management process is designed to produce results. It is a comprehensive system of examining ourselves

and the environments that affect us; of developing goals, action plans and timetables; of implementing those plans and measuring their effectiveness.

The framework for this process, more than a year in the making, was introduced to key executives at their annual meeting in September.

Safeway's 1982 performance—though reflecting operational plans more than the strategic ones we are developing now—demonstrates our ability to produce the results investors expect. Sales, profits and return on equity were all higher—in real terms, not inflated ones—than in 1981.

The closing price of a Safeway share on the New York Stock Exchange at year-end was $45.75, up from $26.50 at the end of 1981. The second half of 1982 was bullish for the entire market and for the supermarket industry as a whole, but our stock was not merely riding a wave of good news on Wall Street. The Dow Jones index increased 19.6 percent between January and December, while the market value for Safeway shares went up more than 72 percent.

The yield on stockholders' investments also increased during 1982. Safeway's Board of Directors declared a quarterly dividend increase of five cents per share of common stock effective with the fourth quarter payout. It brought the annual dividend rate to $2.80 per share.

Improved performance on the market led the directors,

at their December meeting, to approve a dividend reinvestment and stock purchase plan. It will permit shareholders to reinvest their dividends in additional shares at a discount, and enable them to purchase up to $5,000 worth of stock during any quarter without paying a commission. Subject to regulatory approval, the plan will go into effect at the end of the second quarter of 1983.

In itself, 1982's performance only hints at Safeway's potential as an investment. *Sustained* strong performance depends on two criteria: expanding *real* sales and building *real* earnings.

Supporting real earnings growth requires an expanded sales base. To achieve that goal in our existing stores, we are implementing aggressive merchandising plans. In addition, we will continue to construct and remodel stores in areas offering the best potential return on investment (ROI). Our 1983 capital budget earmarks some $500 million to build more than 120 stores and extensively remodel about 90 others.

We invested about the same amount in 1982, adding 153 new stores and increasing total sales area to more than 66.8 million square feet. At year-end, Safeway operated about 1,800 conventional supermarkets (averaging nearly 24,000 square feet), and more than 500 superstores (at an average of some 40,000 square feet). We also operated 81 Food Barns, 67 Liquor Barns and eight other specialty stores. The majority of our stores are in growth areas. Based on recent Chase Econometrics data on Standard Metropolitan Statistical Areas (SMSAs) in the U.S., for example, Safeway had stores in:

- seven of the top 10 ranked by growth in personal income;
- eight of the top 10 ranked by employment growth; and
- nine of the top 10 ranked by population growth.

In Canada, the vast majority of our operations are in provinces that are growing faster than the national average. Population growth in Alberta and British Columbia, for example, is at annual rates of 3.5 percent and 2.5 percent, respectively, while Canadian census officials project overall national population growth at about one percent annually through 1985.

Growth areas like these help ensure a satisfactory return on investment.

ROI, in fact, figures prominently in hundreds of decisions Safeway's management makes every day. For example, it prompts investments in technology, equipment and programs to improve productivity—things like scanners, electronic ordering devices, power management systems and mechanized warehouses.

It will also play a decisive role in any action Safeway takes to divest itself of a losing operation. Although the company will infuse capital into operations that have good prospects, we will close facilities when a candid appraisal reveals no signs of probable recovery. This was the case with our Omaha Division and stores in the Memphis area. The keys to avoiding these situations are good operations, equal cost bases with competitors and, at the bottom line, profits. We cannot afford extended subsidies when divestiture

would free up valuable resources for more profitable investments. Investment and divestiture are merely opposite sides of the asset management coin.

ROI considerations have also led to careful management of inventories, which represent about 40 percent of our assets. Inventory management does not necessarily mean drastic inventory reductions—certainly not those that create out-of-stocks. It does mean more attention to efficient store stocking plans, to dependable deliveries, to good ordering, to prudent forward buys, to special manufacturers' offers—things that help us give customers what they want at the low prices they like. Indicative of the progress we're making is the fact that during 1982, we were able to hold average weekly inventories even with the previous year, despite a net increase of more than 1.3 million square feet of retail store space.

More effective cash management is another item high on Safeway's revised ROI agenda. We have made some significant changes in this area. For example, we implemented a computer-

based data collection system to consolidate and report store deposit information. Modern cash management practices that take full advantage of advanced automated systems make our funds work harder, reduce interest expense and increase investment opportunities. With interest rates at high levels, we

will continue taking advantage of new services and developments in this dynamic area.

Similarly, we are keeping abreast of emerging techniques and instruments to ensure that we obtain capital at the most flexible and attractive terms available.

Of course, what we ultimately spend on financing depends on how the rating agencies judge our creditworthiness. Their judgment, in turn, is based largely on performance.

Safeway's results-oriented management planning process will keep us focused on short-term gains while aiming at long-term prosperity—measuring results as we go. And that is precisely what our stockholders expect: results—today, next month and 10 years from now.

TO FORGE A PARTNERSHIP AMONG ALL EMPLOYEES TO SUSTAIN THE GROWTH AND VITALITY OF OUR COMPANY

Safeway grew from entrepreneurial roots. We continue to foster the pioneering spirit, so much a part of our heritage, among our 156,000 employees.

We want each of them to ask questions, make suggestions and exercise independent judgment to find more effective ways of serving customers, increasing sales and making profits.

The company is committed to help employees bring out the best in themselves—to learn to appreciate the meaningful nature of the work they do and take pride in it. Food distribution is a noble enterprise. As Safeway employees, our people have every right to be proud of the role they play in the world's finest, most efficient food delivery system.

Those who understand the significance of what we do, and what their accomplishments bring to the system, naturally take personal pride in doing their work to the best of their ability.

Safeway's plans for attracting, developing and rewarding bright, friendly and effective people recognize the importance of the individual. To meet the challenge of excellence inherent in our mission, however, we must weld individuals into an effective, mutually-supportive team. We must fuse Safeway's workforce into a solid partnership of shared interests based on pride, trust and cooperation.

Channeling the energies of a team this size in a single direction is an awesome challenge—but it holds great potential.

When a company is small and just beginning to struggle for success, a sense of partnership comes naturally. People talk to one another in straightforward, face-to-face encounters. The impact of each individual on the group's performance is evident to all. Problems surface quickly and are resolved with dispatch. Questions arise and people seek answers together, driven by common purpose.

But as organizations grow, lines of communication stretch. Barriers emerge. Messages from the top sometimes become garbled as they filter down. Ideas from below often get lost in the daily routine of doing business. It can happen in any large organization.

At Safeway, we are dealing with this perennial problem by intensifying the focus on communication among our employees. Effective communication is the route to a real partnership, in individual relationships as well as in formal programs. It flows up, down and sideways. It holds a team together.

Late in 1982, Safeway reorganized its "people" operations—personnel, management development and training, industrial relations, and communications—under a single "human resources group" umbrella. This group is now concentrating its coordinated efforts on strengthening the Safeway partnership, emphasizing programs that elicit open, candid dialogue between employees at all levels of the company.

To supplement corporate programs, we encourage managers throughout the organization to continue developing grass-roots projects that enhance communication and team-building. Examples range from "listening" and "right to be heard" programs to sounding boards, quality circles and casual breakfast meetings.

Underlying all of these efforts is a desire to show employees how their individual roles mesh with the rest of the operation. This awareness grows as employees lay the foundation of understanding by solving problems, resolving conflicts, raising questions and finding answers.

It also grows as supervisors take the time, and develop the trust necessary, to explain to their people what the company is doing and where it is going.

These forums, with formal corporate programs to reinforce them, pave the way to excellence.

And *excellence*, pure and simple, is our standard. To achieve it, we must be competitively superior. We must reach, and sustain, levels of performance that are too high for the rest.

To borrow from a description expressed by ballet choreographer Arthur Mitchell, excellence requires the highest possible technical knowledge and skills. It takes a realistic assessment of strengths and weaknesses. It takes imagination, vitality, energy and an intense urge to achieve the absolute finest in whatever we attempt. It takes unrelenting work and disciplined focus on the tasks at hand.

That is Safeway's challenge, and we welcome it.

THE WORLD OF SAFEWAY
As of fiscal year-end, Safeway and its subsidiaries operated 2,454 stores in the United States, Canada, the United Kingdom, West Germany and Australia. During the year, we opened 153 new stores, including 38 Liquor Barns and two Bon Appetit stores.

In the U.S., Safeway operates stores in 27 states and the District of Columbia. We are well represented in the fastest growing areas of the country.

For 53 years, Canada Safeway Limited has been the leading food retailer in the western and central provinces. Prospects for the future are continued steady growth.

Safeway Foods Stores Limited continues to expand operations in England and Scotland, with the 100th store due this spring. Three of the seven stores added last year feature full-service pharmacies.

Safeway Supermarkt GmbH has built a loyal customer following on the strength of popular delicatessens and superior perishables. Three new stores were opened last year, with two more on the way in 1983.

Australian Safeway Limited serves three principal metropolitan areas — Melbourne, Sidney and Brisbane. Its customers are offered a variety of shopping environments, from large superstores to discount-type stores.

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U.S. Regional Manager
John Bell
Los Angeles Div., 185 stores
Albert J. Fuller
Phoenix Div., 88 stores
Robert R. Taylor
Richmond Div., 77 stores
Ralph C. Ward
Sacramento Div., 92 stores
Eugene V. Pahl
San Diego Div., 52 stores
John R. Maxwell
San Francisco Div., 203 stores
Eldon W. Stanley
Washington, D.C. Div., 150 stores
Donald J. Smith

U.S. Regional Manager
Fred E. MacRae
Butte Div., 28 stores
Burton R. Holdsworth
Denver Div., 146 stores
Pete P. Martin
Portland Div., 91 stores
William D. Lowe
Salt Lake City Div., 50 stores
Gene J. Lawson
Seattle Div., 129 stores
Gerald V. Cartright
Spokane Div., 11 stores
John A. Cartales

U.S. Regional Manager
William H. Meloney
Dallas Div., 153 stores
Carey A. Ford
El Paso Div., 34 stores
Donald J. Phillips
Houston Div., 99 stores
Sam E. Raburn
Kansas City Div., 79 stores
Donald Gates
Little Rock Div., 65 stores
Allen Francis
Oklahoma City Div., 68 stores
Forrest Woolery
Tulsa Div., 37 stores
Donald R. Cannon

Canada
A. G. Anselmo
Calgary Div., 18 stores
Robert H. Kittle
Edmonton Div., 32 stores
Donald L. Olson
Regina Div., 27 stores
Norman M. Knechel
Toronto Div., 26 stores
Norman D. Fingler
Vancouver Div., 93 stores
Robert F. Hendy
Winnipeg Div., 48 stores
Vern E. Fahey

International
John S. Kimball
Australia Div., 115 stores
J. W. R. Pratt
Germany Div., 28 stores
Manfred J. Filsek
U.K. Div., 98 stores
T. E. Spratt
Mexico, Casa Ley, S.A. (joint ventures), 13 stores
South Arabia (management contracts), 4 stores

Note: Above listings effective as of year end.

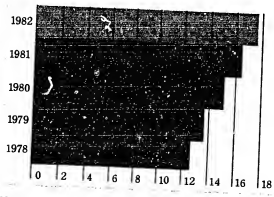
	1982	1981*	1980*†	1979*	1978*
Earnings:					
Sales	$17,632,821	$16,580,318	$15,102,673	$13,717,861	$12,550,569
Percent of annual increase	6.3%	9.8%	10.1%	9.3%	11.6%
Cost of sales	13,628,052	12,945,923	11,816,733	10,793,570	9,828,391
Gross profit	4,004,769	3,634,395	3,285,940	2,924,291	2,722,178
Percent of sales	22.7%	21.9%	21.8%	21.3%	21.7%
Operating and administrative expenses	3,653,861	3,363,478	2,999,130	2,617,697	2,369,324
Percent of sales	20.7%	20.3%	19.9%	19.1%	18.9%
Operating profit	351,208	270,917	286,810	306,594	352,854
Interest expense	129,484	120,393	99,614	91,276	74,110
Other income—net	(26,536)	(15,822)	(16,486)	(13,865)	(10,826)
Income taxes	88,600	58,062	74,544	81,456	130,600
Net income	$ 159,660	$ 108,284	$ 129,138	$ 147,727	$ 158,970
Percent of sales	.91%	.65%	.86%	1.08%	1.27%
Percent of average stockholders' equity	14.43%	10.16%	12.60%	15.57%	18.43%
Per share of common stock	$ 6.11	$ 4.15	$ 4.94	$ 5.66	$ 6.10
Cash dividends per share of common stock	2.65	2.60	2.60	2.60	2.30
Average shares of common stock outstanding	26,130,608	26,115,917	26,115,917	26,113,785	26,075,822
Financial Statistics:					
Working capital	$ 218,124	$ 112,919	$ 114,185	$ 127,122	$ 211,627
Current assets per dollar of current liabilities	1.16	1.08	1.10	1.12	1.22
Additions to property	511,917	518,330	493,005	435,928	303,100
Depreciation and amortization	242,371	226,001	204,469	180,896	162,885
Total assets	3,890,633	3,652,315	3,333,541	3,084,568	2,802,912
Long-term debt	1,256,186	1,137,616	1,051,229	955,656	880,734
Equity of common stockholders	1,137,095	1,075,098	1,055,687	994,426	903,241
Per share of common stock	43.48	41.17	40.42	38.08	34.61
Cash dividends on common stock	69,228	67,900	67,900	67,900	59,981
Other Statistics:					
Employees at end of year	156,478	157,411	150,012	148,876	144,243
Stores opened during year	153	159	160	104	111
Stores closed during year	176	98	169	115	103
Total stores at end of year	2,454	2,477	2,416	2,425	2,436
Total store area at year-end (thousands sq. ft.)	66,816	65,482	62,069	59,470	57,461
Average annual sales per store	$ 7,184	$ 6,682	$ 6,072	$ 5,554	$ 5,098
Market price range of common stock	50¾-26¼	37⅝-24½	36¼-26	44-33⅝	46-35⅝

Note: Dollars are in thousands except per share figures.

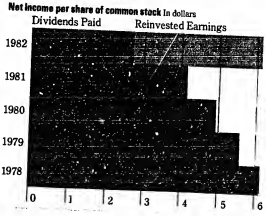
*Restated—see Note B to consolidated financial statements.

†53 weeks.

Sales In billions of dollars



Net income per share of common stock In dollars



Results of Operations

Consolidated sales increased by 6.3% in 1982 to $17.63 billion from $16.58 billion in 1981 and $15.10 billion in 1980. The sales increases for both 1982 and 1981 exceeded the rate of inflation for food in the U.S., reflecting improved real sales. Sales in 1982 were, nonetheless, adversely affected by the continued recession, the peso devaluation in the company's Mexican border areas, the declines in foreign currency values in countries where the company operates, and the closure of the Omaha Division.

Gross profits as a percent of sales were 22.7% in 1982, 21.9% in 1981 and 21.8% in 1980. The charge to cost of sales from applying the LIFO method of valuing certain inventories was $13.1 million for 1982, compared to $20.2 million in 1981 and $45.5 million in 1980. The decreases in the LIFO charge were principally due to lower inflation in the prices the company pays for merchandise.

Operating and administrative expenses increased to 20.7% of sales in 1982 from 20.3% in 1981 and 19.9% in 1980. The rate of increase in 1982 and 1981 exceeded the rates of sales increase for those years; however, increases in operating and administrative expenses have slowed as a result of extensive cost control measures.

Interest expense in 1982, although moderated by declining interest rates, increased to $129.5 million from $120.4 million in 1981 and $99.6 million in 1980. The increase in 1982 was principally due to new long-term borrowings while the increase in 1981 was due to both higher overall levels of borrowing and higher interest rates.

Other income for 1982 included a pre-tax gain of $5.4 million from the closure of the Omaha Division, comprised of gains on sale of properties offset by the division's operating losses and other closure expenses.

The provision for income taxes as a percent of pre-tax income was 35.7% in 1982, compared with 34.9% in 1981 and 36.6% in 1980. Investment tax credits were 10.2%, 10.5% and 8.6% of pre-tax income in 1982, 1981 and 1980, respectively.

Net income reached a record $159.7 million in 1982, up from $108.3 million in 1981 and $129.1 million in 1980. The increase in 1982 of 47.5% was a result of improved real sales, improved gross profit margins and measures taken to control operating and administrative expenses. Also, the comparison of 1982 earnings to 1981 includes the effect of the earlier year's prolonged price war in the company's East Coast trading areas.

See Note O for further information on the effects of inflation and changing prices on operating results.

Liquidity

Consolidated working capital increased to $218 million in 1982, and the current ratio improved to 1.16 from 1.08 at year-end 1981 and 1.10 at year-end 1980. If all inventories were stated on a FIFO basis, the company's current ratio would have been 1.36, 1.29 and 1.32, and working capital would have been $508 million, $389 million and $370 million at year-ends 1982, 1981 and 1980, respectively.

In 1982, the company replaced its domestic credit lines with revolving credit agreements and credit lines with "evergreen" features which continually extend the expiration of the lines to be 13 months in the future. The aggregate domestic credit lines at year-end 1982 were $435 million and these lines support the company's commercial paper borrowings.

Commercial paper and bank borrowings outstanding averaged $289 million in 1982, $252 million in 1981 and $182 million in 1980. The average interest rate paid on consolidated short-term borrowings declined in 1982 to 12.9%, from 16.1% in 1981 and 13.3% in 1980.

Capital Resources

Capital expenditures were $512 million in 1982, as compared with $518 million in 1981 and $493 million in 1980.

These expenditures were mainly for new and remodeled stores. New stores opened in 1982 numbered 153, including 38 new "Liquor Barn" stores and 8 new "Food Barn" discount food stores. Stores closed in 1982 were 176, including 65 stores in the closed Omaha Division. Total retail store square footage increased to 66.8 million in 1982 from 65.5 million at year-end 1981, despite the number of closures. The mix of stores at year-end 1982, along with the average sizes, was as follows:

	Number	Avg. Size Sq. Ft.
Conventional supermarkets	1,769	23,761
Superstores (over 35,000 sq. ft.)	529	40,771
Food Barns	81	22,716
Liquor Barns	67	18,746
Other specialty stores	8	14,875
Total stores and overall average	2,454	27,227

Purchases of fixtures and equipment amounted to $231 million in 1982, $223 million in 1981 and $212 million in 1980.

In 1983, the company plans to make capital expenditures of $500 million, close to the amounts for the previous two years, and new store openings are projected to be 153.

Major sources of capital financing were funds provided from operations, sale/leaseback financing and mortgage financing. Sale/leaseback and mortgage financing provided $178 million in 1982, $184 million in 1981 and $121 million in 1980. In addition, $28 million was received in late 1982 under medium-term notes and is to be used for equipment purchases in 1983.

In late 1982, the company invested $36 million in the purchase of current and future tax benefits through tax leases. The tax benefits purchased are treated as timing differences for financial statement purposes. However, the transaction will result in projected tax savings of $68 million through 1986 followed by tax payments of $39 million extending through 1997, thus providing funds at an effective borrowing rate of 5%.

In 1983, the company may seek new long-term debt financing of up to $200 million. Also, a dividend reinvestment plan, to commence with the second quarter dividend of 1983, should provide for new investment in the common stock of the company.

For the 52 weeks ended January 1, 1983, the 52 weeks ended January 2, 1982, and the 53 weeks ended January 3, 1981
Safeway Stores, Incorporated and Subsidiaries (thousands)

	1982	1981	1980
Sales	$17,632,821	$16,580,318	$15,102,673
Cost of sales	13,628,052	12,945,923	11,816,733
Gross profit	4,004,769	3,634,395	3,285,940
Operating and administrative expenses	3,653,561	3,363,478	2,999,130
Operating profit	351,208	270,917	286,810
Interest expense (Note D)	129,484	120,393	99,614
Other (income), net (Note E)	(26,536)	(15,822)	(16,486)
Income before provision for income taxes	248,260	166,346	203,682
Provision for income taxes (Note F)	88,600	58,062	74,544
Net income (per share: $6.11, $4.15 and $4.94)	159,660	108,284	129,138
Retained earnings at beginning of period	1,034,549	994,165	932,911
Cash dividends on common stock (per share: $2.65, $2.60 and $2.60)	(69,228)	(67,900)	(67,900)
Additions resulting from stock acquisitions	—	—	16
Retained earnings at end of period	$ 1,124,981	$ 1,034,549	$ 994,165

See accompanying notes to consolidated financial statements.

For the 52 weeks ended January 1, 1983, the 52 weeks ended January 2, 1982, and the 53 weeks ended January 3, 1981
Safeway Stores, Incorporated and Subsidiaries (thousands)

	1982	1981	1980
Funds provided:			
Net income	$159,660	$108,284	$129,138
Add charges (credits) to income not requiring funds:			
Depreciation and amortization	242,371	226,001	204,469
Increase in accrued claims and other liabilities	16,188	12,129	17,144
Increase (decrease) in deferred income taxes	(12,322)	3,573	739
Total funds provided from operations	405,897	349,987	351,490
Additions to long-term debt	228,293	168,009	160,126
Retirements or sales of property	153,492	156,227	115,876
Exchange rate effects on property and long-term debt	29,697	33,966	(8,934)
Total funds provided	817,379	708,189	618,558
Funds used:			
Additions to property	511,917	518,330	493,005
Payments on long-term debt	94,618	79,033	64,836
Cash dividends on common stock	69,228	67,900	67,900
Cumulative translation adjustments	29,628	20,973	(7)
Addition to excess cost of investment in subsidiaries over net assets at date of acquisition	—	14,077	1,283
Other uses, net	6,783	9,142	4,478
Total funds used	712,174	709,455	631,495
Increase (decrease) in working capital (Note J)	$105,205	$ (1,266)	$(12,937)

See accompanying notes to consolidated financial statements.

As of January 1, 1983, January 2, 1982 and January 3, 1981
Safeway Stores, Incorporated and Subsidiaries (thousands)

Assets	1982	1981	1980
Current assets:			
Cash	$ 63,808	$ 44,075	$ 115,758
Receivables	73,105	72,180	56,633
Merchandise inventories (Note A):			
FIFO cost	1,627,440	1,496,775	1,269,560
Less LIFO reductions	289,450	276,339	256,093
	1,337,990	1,220,436	1,013,467
Prepaid expenses and other current assets	142,642	128,984	83,809
Total current assets	1,617,545	1,465,675	1,269,667
Other assets:			
Licenses, notes receivable and investments	49,616	40,814	31,775
Deferred income tax charges	7,220	—	—
Excess cost of investment in subsidiaries over net assets at date of acquisition, less amortization	14,301	16,234	2,859
Total other assets	71,137	57,048	34,634
Property:			
Land	174,623	159,113	138,201
Buildings	279,736	232,139	176,631
Leasehold improvements	403,413	375,407	363,143
Fixtures and equipment	1,610,584	1,497,632	1,336,333
Transport equipment	165,761	155,189	161,763
Property under capital leases	1,140,436	1,187,204	1,217,075
	3,774,553	3,606,684	3,393,146
Less accumulated depreciation and amortization	1,572,602	1,477,092	1,363,906
Total property, net	2,201,951	2,129,592	2,029,240
Total assets	$3,890,633	$3,652,315	$3,333,541

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	1982	1981	1980
Current liabilities:			
Notes payable (Note G)	$ 88,028	$ 141,208	$ 116,679
Current obligations under capital leases	45,564	46,384	44,855
Current maturities of notes and debentures	13,845	10,406	5,880
Accounts payable	948,632	868,143	726,429
Accrued salaries and wages	149,492	136,628	129,457
Other accrued expenses	142,603	128,075	102,074
Income taxes payable	11,257	21,912	30,108
Total current liabilities	1,399,421	1,352,756	1,155,482
Long-term debt:			
Obligations under capital leases (Note H)	767,309	809,393	844,011
Notes and debentures (Note I)	488,877	328,223	207,218
Total long-term debt	1,256,186	1,137,616	1,051,229
Deferred income taxes	—	5,102	1,529
Accrued claims and other liabilities	97,931	81,743	69,614
Commitments and contingencies (Notes C, H, K, & L)			
Stockholders' equity (Notes M & N):			
Common stock—$1.66⅔ par value			
Authorized 75,000,000 shares			
Outstanding 26,149,743; 26,115,917 and 26,115,917 shares	43,583	43,527	43,527
Additional paid-in capital	64,573	63,436	63,436
Cumulative translation adjustments (Note B)	(96,042)	(66,414)	(45,441)
Retained earnings	1,124,981	1,034,549	994,165
Total stockholders' equity	1,137,095	1,075,098	1,055,687
Total liabilities and stockholders' equity	$3,890,633	$3,652,315	$3,333,541

Note A – Summary of Significant Accounting Policies

Fiscal Year:
The fiscal year for the company and its Canadian subsidiaries ends on the Saturday nearest to December 31. Fiscal years of overseas subsidiaries follow a similar pattern but generally end on the Saturday nearest September 30 to allow sufficient time to gather information from overseas for U.S. reporting purposes.

Basis of Consolidation:
Consolidated financial statements include the accounts of all subsidiaries except a minor overseas subsidiary which is included in investments at the amount of equity in net book value. All intercompany transactions have been eliminated in consolidation. Investments in affiliates which are not majority owned are included in the financial statements at the company's equity therein.

Interest Expense:
Interest cost incurred in connection with construction in progress is capitalized in accordance with the provisions of Statement of Financial Accounting Standards No 34.

Translation of Foreign Currencies:
In accordance with Statement of Financial Accounting Standards No. 52, assets and liabilities of the company's foreign subsidiaries are translated into U.S. dollars at fiscal year-end rates of exchange and income and expenses are translated at average rates during the year.

Translation adjustments are accumulated in a separate component of stockholders' equity—"cumulative translation adjustments." Gains or losses from foreign currency transactions (transactions denominated in a currency other than the entity's functional currency) are included in income.

Provision for Income Taxes:
The company provides for deferred income tax charges and credits resulting from timing differences in the recognition of income and expenses for financial reporting and income tax purposes. These timing differences arise primarily from the use of accelerated depreciation for tax purposes and from the accrual of claims and capitalization of leases for financial statement purposes. Investment tax credits, excluding credits acquired from other companies through tax leases, reduce the provision for income taxes in the year in which the credits arise.

The cost of tax credits and other tax benefits acquired from other companies through tax leases is capitalized as an investment and reduced as the investment is recovered by realized tax savings. The portion of the investment in excess of the total net tax savings will be charged to income in periods when the company has realized cumulative positive cash flows from the transaction. Deferred taxes are provided for differences between taxable income and financial reporting income that arise from the transaction.

Net Income Per Share:
Net income per share is determined by dividing consolidated net income by the average number of common shares outstanding during the year.

Merchandise Inventories:
Approximately 60% of consolidated merchandise inventories are valued on a last-in, first-out (LIFO) basis. Inventories not valued on a LIFO basis are valued at the lower of cost on a first-in, first-out (FIFO) basis or replacement market. Inventories on a FIFO basis include meat and produce in the U.S. and all Canadian and overseas inventories.

The charge to cost of sales from applying the LIFO method was $13,111,000 in 1982, $20,246,000 in 1981 and $45,467,000 in 1980. In both 1982 and 1981, fourth-quarter adjustments reduced the LIFO charges accumulated through the first 36 weeks of the year to reflect the actual impact of the LIFO method for the full year as determined at year-end. The adjustments increased fourth-quarter pre-tax earnings by $12,603,000 in 1982 and $12,154,000 in 1981.

Excess Cost of Investment in Subsidiaries:
The excess cost of investment in subsidiaries over net assets at the date of acquisition is being amortized and charged against income on a straight-line basis over 20 years.

Property and Depreciation:
Property is stated at historical cost. Depreciation is computed for financial reporting purposes on the straight-line method. The following are the principal rates of depreciation used during the year:

Stores and other buildings	2½ to 5%
Fixtures and equipment	5 to 20%
Transport equipment	12½ to 16⅔%

Leasehold improvements include buildings constructed on leased land and improvements to leased buildings. Buildings and major improvements are amortized over the shorter of the remaining period of the lease or the estimated useful life of the asset, while minor improvements are amortized over the shorter of the remaining period of the lease or six years.

Property under capital leases is amortized over the terms of the leases. Accumulated amortization of property under capital leases was $477,131,000, $476,455,000 and $463,538,000 at year-ends 1982, 1981 and 1980, respectively.

Depreciation and amortization expense for property of $241,264,000 in 1982, $225,196,000 in 1981 and $204,143,000 in 1980 included amortization of property under capital leases of $54,447,000, $55,424,000 and $55,443,000, respectively.

Stock Options:
Proceeds from the sale of common stock issued under options are added to common stock at par value and the excess is added to additional paid-in capital. Furthermore, any tax benefit to the company realized as a result of stock option exercises is added to additional paid-in capital.

Stock Split:
On February 22, 1983, the company declared a 2-for-1 split of common shares, to be accomplished by a 100% stock distribution effective March 31, 1983. Subsequent reports will reflect the stock split.

Note B—Change in Accounting for Foreign Currency Translation

In 1982, the company changed the method of accounting for translation of foreign currencies to conform with Statement of Financial Accounting Standards No. 52. Under this standard, most of the effects of exchange rate changes related to net assets located outside the United States, previously included in income, are now recorded in stockholders' equity. In addition, certain balance sheet accounts, primarily inventories and property, previously translated from foreign currencies into U.S. dollars at historical exchange rates, are now translated at year-end rates.

The consolidated financial statements and summaries were restated for prior years to reflect the new accounting method. Net income decreased by $6,272,000 (24¢ per share) for 1981 and increased by $9,770,000 (37¢ per share) for 1980 as a result of the restatement. The cumulative effect of the change in accounting increased retained earnings by $27,260,000 at year-end 1979.

"Cumulative translation adjustments" in stockholders' equity changed as follows as a result of translation adjustments (in thousands):

Balance, year-end 1979	$(45,448)
1980 adjustments	7
Balance, year-end 1980	(45,441)
1981 adjustments	(20,973)
Balance, year-end 1981	(66,414)
1982 adjustments	(29,628)
Balance, year-end 1982	$(96,042)

The aggregate net gains (losses) on foreign currency transactions included in net income were $(2,399,000) in 1982, $(239,000) in 1981 and $968,000 in 1980.

Note C—Employee Retirement and Profit-Sharing Plans

The company and its subsidiaries have contributory, trusteed retirement plans, which may be amended or terminated at any time, for eligible employees not covered by other plans to which the companies contribute. The company also has a supplemental pension plan for senior executives. The aggregate charges to income for all such plans were $17,390,000 in 1982, $18,815,000 in 1981 and $22,365,000 in 1980. The company's practice is to contribute the full normal cost each year as determined using the aggregate method. The aggregate method does not deal separately with past service cost, but includes such cost in the normal cost; accordingly, there is no unfunded past service liability.

The actuarial present values of accumulated plan benefits for the U.S. Retirement Plan as of December 31, 1981, 1980 and 1979 were $169,382,000, $157,288,000 and $150,195,000 as to vested benefits and $4,397,000, $2,499,000 and $2,770,000 as to nonvested benefits, respectively. The net assets available for benefits at those dates amounted to $322,003,000, $311,483,000 and $247,683,000, respectively. The assumed rate of return for determining the actuarial present value of accumulated plan benefits was 8% at December 31, 1981 and 1980 and 7% at December 31, 1979. The change from 7% to 8% had the effect of reducing the computed normal cost for 1981 by $6,464,000. There were no changes in assumptions for determining the 1982 normal cost.

The company's foreign retirement plans and supplemental pension plan for senior executives are not required to report to U.S. governmental agencies pursuant to the Employee Retirement Income Security Act. Accordingly, the actuarial present value of accumulated plan benefits has not been determined for those plans. The net assets of foreign plans are sufficient to fund vested benefits. The company has purchased cost-recovery life insurance to fund its obligations under the supplemental pension plan for senior executives.

Contributions charged to income for various pension plans under union contracts were $115,991,000 in 1982, $106,394,000 in 1981 and $99,131,000 in 1980. Under U.S. legislation regarding multi-employer pension plans, a company is required to continue funding its proportional share of a plan's unfunded vested benefits in the event of withdrawal (as defined by the legislation) from a plan or plan termination. The company participates in approximately 40 multi-employer pension plans and the potential obligation as a participant in these plans may be significant. However, the information required to determine the total amount of this contingent obligation, as well as the total amount of accumulated benefits and net assets of such plans, is not readily available.

Contributions charged to income for the company's U.S. and Canadian employee profit-sharing plans were $14,131,000 in 1982, $8,747,000 in 1981 and $11,775,000 in 1980.

The company set aside $5,149,000 in 1982, $2,073,000 in 1981 and $2,070,000 in 1980 for contribution to a U.S. employee stock ownership plan which was made possible by additional investment tax credits authorized by tax legislation.

Note D—Interest Expense

Interest expense consisted of the following (in thousands):

	1982	1981	1980
Obligations under capital leases	$ 71,238	$ 73,045	$ 73,057
Notes and debentures	27,176	14,657	10,431
Commercial paper and other short-term borrowings	37,948	40,982	24,201
Other	3,265	2,707	1,734
	139,627	131,391	109,423
Less capitalized interest	10,143	10,998	9,809
Total	$129,484	$120,393	$ 99,614

Note E—Closure of the Omaha Division

In March 1982, the company discontinued operation of its Omaha retail division, comprised of 70 stores and related distribution facilities in eastern Nebraska and western Iowa. Five stores were transferred to other divisions and continue to operate, while 65 stores were closed.

Other income for 1982 includes a pre-tax gain of $5.4 million resulting from the closure of the Omaha Division, while the net gain after estimated tax benefits was $6.2 million (24¢ per share).

Note F– Taxes on Income

The components of the provision for income taxes included in the consolidated statement of income were as follows (in thousands):

	1982	1981	1980
Current provision:			
Federal (benefit)	$13,609	$(10,886)	$13,590
Foreign	57,974	68,731	52,643
State	9,536	4,400	7,343
Total current	81,119	62,245	73,576
Deferred provision:			
Federal and state (charges)	7,445	475	(2,198)
Foreign (charges)	36	(4,662)	3,166
Total deferred	7,481	(4,183)	968
Provision for income taxes	$88,600	$ 58,062	$74,544

The following represent the tax effects of the principal items for which treatment for financial statement and income tax purposes differ, giving rise to timing differences (in thousands):

	1982	1981	1980
Accelerated depreciation	$ 6,139	$12,717	$9,897
Tax benefits acquired through tax leases	21,610	—	—
Accrued claims	(8,454)	(10,264)	(5,842)
Capitalized leases	(2,129)	(4,985)	(4,878)
Compensation plans	(3,973)	(1,079)	(529)
Repairs expense	(2,665)	904	2,257
Other, net	(3,067)	(1,476)	63
Total	$ 7,481	$(4,183)	$ 968

In 1982, the company purchased $13,000,000 in investment and energy tax credits and $16,347,000 in other tax deductions through transactions structured as leases for tax purposes. The amount of acquired tax benefits which reduced the year-end 1982 current tax liability was treated as a timing difference for financial statement purposes.

In 1982, 1981 and 1980, distributions were made to the parent company from current earnings of certain foreign subsidiaries and provision has been made for any income taxes payable on such distributions. No provision has been made for income taxes which might be payable if earnings not yet distributed through year-end 1982 were distributed to the parent company, since it is the intention of management to make no such distributions. The undistributed earnings on which the parent company has not provided for income taxes were $662,770,000, $606,741,000 and $527,163,000 at year-ends 1982, 1981 and 1980, respectively.

United States and Canadian corporation income tax returns for all years prior to 1978 and 1976, respectively, have been reviewed by taxing jurisdictions. Substantially all deductions which have been or may ultimately be disallowed will be carried forward as timing differences and claimed as deductions in future years, thereby having no significant effect on reported earnings.

The company's effective income tax rate as a percentage of pre-tax income varies from the U.S. statutory federal income tax rate as shown below:

	1982	1981	1980
Statutory federal income tax rate	46.0%	46.0%	46.0%
U.S. investment tax credit	(10.2)	(10.5)	(8.6)
Difference between statutory rate and foreign effective rates	(2.2)	(1.7)	(2.7)
State taxes on income, less federal benefit	1.8	1.4	1.9
Other, net	0.3	(0.3)	—
Effective tax rate	35.7%	34.9%	36.6%

The U.S. investment tax credit amounted to $25,439,000 in 1982, $17,426,000 in 1981 and $17,579,000 in 1980.

Note G–Lines of Credit and Short-Term Borrowings

At year-end 1982 the company had lines of credit amounting to $505 million, of which $435 million were domestic credit lines. Compensating balances in support of the lines of credit were not material and there were no legal restrictions on withdrawals for any accounts.

Domestic credit lines comprise $205 million in revolving credit agreements, and $230 million in lines with "evergreen" features which automatically extend the expiration of the lines to be continually 13 months in the future. Interest rates stipulated in the domestic credit lines are generally the prime lending rate or, optionally for Eurodollar borrowings, the London interbank rate plus ½%. The company pays annual commitment fees which approximate ⅛% of the unused portion of its domestic credit lines.

The company also has access to short-term money market credit facilities with various banks, subject to availability at the lender's option. No commitment fees or compensating balances are required under these facilities.

Amounts outstanding at year-end 1982 were $12 million under credit lines, $40 million under credit facilities, $205 million under commercial paper notes supported by domestic credit lines, and approximately $31 million of commercial loans and bank overdraft financing. Borrowings expected to be continually refinanced for a period beyond one year amounted to $200 million and were classified as long-term debt at year-end 1982 (see Note I).

All short-term borrowings and commercial paper notes have been at the prime rate of interest or lower.

Note H—Lease Obligations

The company and its subsidiaries occupy primarily leased premises, which were covered by 3,495 leases at year-end 1982. Of these leases, 1,581 are considered capital under Statement of Financial Accounting Standards No. 13. The remainder are operating leases.

Most leases have renewal options with terms and conditions similar to the original lease. Of all the leases, 1,515 can be cancelled by the company by offer to purchase the properties at original cost less amortization, with purchase obligatory upon acceptance of the offer by the lessor.

The company owns most of its fixtures and equipment.

The following is a schedule by years of future minimum rental payments required under capital leases and under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of year-end 1982 (in thousands):

	Capital Leases	Operating Leases
1983	$ 116,089	$ 115,571
1984	113,472	113,376
1985	110,278	109,025
1986	107,112	103,008
1987	104,084	99,249
Later years	1,098,816	1,112,946
Total minimum lease payments	1,649,851	$1,653,175
Less executory costs	20,047	
Net minimum lease payments	1,629,804	
Less amount representing interest	816,931	
Present value of net minimum lease payments	812,873	
Less current obligations	45,564	
Long-term obligations	$ 767,309	

In addition to minimum lease payments, contingent rentals may be paid under certain store leases on the basis of the stores' sales in excess of stipulated amounts. Contingent rentals on capital leases amounted to $10,373,000 in 1982, $10,298,000 in 1981 and $7,837,000 in 1980.

The following schedule shows the composition of total rental expense for all operating leases (in thousands):

	1982	1981	1980
Property leases:			
Minimum rentals	$142,645	$121,776	$ 97,484
Contingent rentals	9,815	8,899	7,972
Less rentals from subleases	(10,814)	(7,710)	(6,036)
	141,646	122,965	99,420
Equipment leases	26,669	21,781	19,182
Total	$168,315	$144,746	$118,602

Note I—Notes and Debentures

Notes and debentures at year-end 1982 consisted of (in thousands):

	Due After One Year	Current Maturities
Mortgage notes payable, secured	$153,194	$10,495
7.40% sinking fund debentures, unsecured, due in installments through 1997	41,230	–
Commercial paper	200,000	–
Industrial development revenue bonds	20,122	–
Other notes payable, unsecured	74,331	3,350
Total	$488,877	$13,845

The mortgage notes payable are secured by properties which are included in the balance sheet at their net book value of $146,482,000. Mortgage notes have remaining terms ranging from 2 to 25 years and bear interest at 5% to 16%.

The 7.40% debentures require an annual sinking fund payment of $3,250,000. The company has repurchased debentures which cover $7,520,000 of future sinking fund requirements remaining at year-end 1982. Under the agreement covering the 7.40% debentures, $621,880,000 of the retained earnings as of year-end 1982 were free of restrictions for dividend payments and acquisitions of common stock. Restrictions include a limitation on the creation of additional funded debt.

As of year-end 1982 the company had completed industrial development revenue bond financings of $46,900,000, of which amount $20,122,000 had been released to the company. The bonds have terms ranging from 10 to 25 years and bear interest at 11¼% to 13⅜%.

On December 30, 1982, the company filed a Registration Statement with the Securities and Exchange Commission for the proposed offering of debt securities up to $200 million.

Aggregate annual maturities of notes and debentures for the four years beyond 1983 are (in thousands):

1984	$39,334
1985	31,574
1986	29,190
1987	24,751

Note J—Changes in Working Capital (thousands)

	1982	1981	1980
Increase (decrease):			
Cash	$ 19,733	$(71,683)	$ 17,886
Receivables	925	15,547	(3,461)
Merchandise inventories	117,554	206,969	31,633
Prepaid expenses and other current assets	13,658	45,175	15,267
Notes and obligations payable	50,561	(30,584)	20,874
Payables and accruals	(107,881)	(174,886)	(84,627)
Income taxes payable	10,655	8,196	(10,509)
Increase (decrease) in working capital	$105,205	$ (1,266)	$(12,937)

Note K—Commitments

The company has commitments under contracts for the purchase of property and equipment and for the construction of buildings. Portions of such contracts not completed at year-end are not reflected in the financial statements. These unrecorded commitments amounted to approximately $117 million at year-end 1982.

Note L—Contingent Liabilities—Litigation

There are pending against the company various claims and lawsuits arising in the normal course of the company's business, including, as of March 4, 1983, suits charging violations of certain antitrust and Civil Rights laws, some of which purport to be class actions and seek damages in very large amounts, as well as other relief which, if granted, would require very large expenditures.

Prior Annual Reports noted the pendency of 18 suits brought against the company and others by various livestock producers and feeders alleging violations of the antitrust laws in the purchase and sale of meat (and of one similar suit in which the company was named as a co-conspirator). In 17 of these cases, the claims for damages have been dismissed by the District Court as not within exceptions to the antitrust rule that only those who deal directly with defendants can recover damages. These dismissals currently are on appeal. Dismissal of the 18th case is now final.

While management is unable to predict the ultimate outcome on these antitrust cases, in its opinion, the company has good and meritorious defenses to each action and should prevail in all.

Although the amount of liability at year-end 1982 with respect to all of the above matters cannot be ascertained, management is of the opinion that any resulting liability will not materially affect the company's consolidated income or financial position.

Note M—Capital Stock and Additional Paid-In Capital

The company has 220,372 shares of authorized and unissued preferred stock with a $100 par value. The following summary shows the changes during 1980, 1981 and 1982 in common stock outstanding and treasury shares, and the changes in common stock and additional paid-in capital (dollars in thousands):

	Common Stock			Additional
	Shares Outstanding	Shares in Treasury	Amount Outstanding	Paid-in Capital
Balance, year-ends 1979, 1980 and 1981	26,115,917	13,601	$43,527	$63,436
Stock options exercised, 1982	33,826	—	56	1,137
Balance, year-end 1982	26,149,743	13,601	$43,583	$64,573

Note N—Stock Option, Stock Appreciation and Stock Purchase Plans

The following summary shows the changes during 1980, 1981 and 1982 in stock options granted to key employees to purchase shares of the company's common stock:

	Shares	Option Price
Outstanding, year-end 1979	492,600	$40.13-47.88
Expired, 1980	(13,250)	40.13-47.88
Outstanding, year-end 1980	479,350	40.13-47.88
Replaced, 1981	(479,050)	40.13-47.88
Granted, 1981	603,650	31.63
Expired, 1981	(9,100)	31.63-46.13
Outstanding, year-end 1981	594,850	31.63-47.88
Granted, 1982	149,300	28.63
Exercised, 1982	(33,826)	31.63
Expired, 1982	(16,060)	28.63-47.88
Outstanding, year-end 1982	694,264	28.63-31.63

A non-qualified stock option plan, adopted in 1981 to supersede the prior plan, authorized issuance of 1,500,000 shares of the company's common stock. Options under the plan were granted in 1981 for 603,650 shares, in conjunction with the optionees' surrender of options covering 479,050 shares under the prior plan.

An incentive stock option plan was adopted in 1982 to permit the granting of qualified stock options. Qualified options for 127,300 shares and non-qualified options for 22,000 shares were granted in 1982.

At year-end 1982, there were 771,910 unoptioned shares available for granting, and 228,674 of the outstanding unexercised options were exercisable. Outstanding stock options expire on February 12, 1991 and June 17, 1992, and the weighted average purchase price per share under outstanding options was $31.00 at year-end 1982.

Stock appreciation rights were granted in 1982 for 273,200 shares currently under option at $28.63 and $31.63 per share. Upon exercise of a stock appreciation right, the holder surrenders the related option and receives the excess of the then fair market value of the option shares over the option price in cash. None of such rights were exercisable at year-end 1982. The company recognized compensation expense of $1,903,000 in 1982 as a result of the granting of stock appreciation rights.

A dividend reinvestment and stock purchase plan was adopted in December 1982, to be effective with the dividend for the second quarter of 1983.

Note O—Supplementary Information on Inflation and Changing Prices (unaudited)

The supplementary information represents estimates of the effects of inflation on the company's financial statements using current cost accounting as prescribed by Statements of Financial Accounting Standards Nos. 33 and 70.

Current cost accounting attempts to measure the effects of changes in specific prices by adjusting historical costs to amounts which approximate the current costs to the company of producing or replacing inventories and property.

The computed net income for 1982 under current cost accounting includes adjustments to merchandise costs and depreciation and amortization expense. Current cost

adjustments were computed based principally on externally generated specific price indexes. The effects of inflation on merchandise costs have already been recognized in the historical financial statements to the extent that the LIFO method of accounting is used for approximately 60% of merchandise inventories.

The provision for income taxes does not reflect the current cost adjustments to merchandise costs or depreciation and amortization expense.

The "gain from the change in purchasing power of net monetary liabilities" represents the gain in general purchasing power, as measured by general inflation rates, realized by the company as monetary liabilities are paid with currency of decreased purchasing power. This gain should be considered a partial offset to interest expense as interest rates reflect the anticipated rate of inflation. Also, since the inflation-adjusted net income includes adjustments for the effect of inflation on inventories and property which are financed by monetary liabilities, the effect of inflation on the related liabilities should also be considered. Thus, net income including the "gain from the change in purchasing power of net monetary liabilities" may be a more comprehensive measure of inflation-adjusted operating results.

In 1982 the current costs of merchandise inventories and property increased by $151 million, whereas those assets increased by $296 million as a result of general inflation as measured by the U.S. Consumer Price Index for All Urban Consumers (CPI-U). Thus, the year's increase in inventories and property due to general inflation exceeded the increase in current costs by $145 million, indicating a rate of general inflation higher than the rate of increase in specific price indexes for those items. At year-end 1982, the current cost of merchandise inventories was $1,627 million and the current cost of net property was $3,284 million.

The five-year summary of inflation-adjusted data shows amounts stated in dollars of 1982 average purchasing power based on the CPI-U.

Current cost accounting involves the use of assumptions, estimates and subjective judgments, and the results should not be viewed as precise measurements of the effects of inflation.

Supplementary Financial Data Adjusted for the Effects of Changing Prices (millions)

	1982	
	As Reported in the Statement of Income	Adjusted for Changes in Specific Prices (Current Costs)
Sales	$17,633	$17,633
Cost of sales	13,628	13,688
Other expenses, net	3,757	3,836
Income before provision for income taxes	248	109
Provision for income taxes	88	88
Net income	$ 160	21
Gain from the change in purchasing power of net monetary liabilities		83
Net income including gain in purchasing power		$ 104
Depreciation and amortization expense*	$ 242	$ 347

*Included in cost of sales and other expenses.

Five-Year Comparison of Selected Financial Data Adjusted for the Effects of Changing Prices
(In Dollars of 1982 Average Purchasing Power, Using CPI-U)

	1982	1981	1980	1979	1978
Sales	$17,633	$17,597	$17,691	$18,242	$16,569
Net income (loss)	21	(45)	(54)	(10)	14
Net income (loss) per share of common stock	.80	(1.72)	(2.07)	(.38)	.55
Gain from the change in purchasing power of net monetary liabilities	83	193	251	270	184
Net income including gain in purchasing power	104	148	197	260	198
Increase in the current costs of merchandise inventories and property over (under) the increase due to general inflation	(145)	(251)	(19)	(45)	69
Net assets at year-end	2,478	2,614	2,784	2,682	2,572
Cash dividends per share of common stock	2.65	2.76	3.05	3.46	3.40
Market price per share of common stock at year-end	45.23	27.22	34.96	43.38	57.35
Average Consumer Price Index (CPI-U)	289.1	272.4	246.8	217.4	195.4

Note: Dollars are in millions except per share figures.

Note P—Financial Information by Geographic Area (thousands)

	United States*			Canada		
	1982	1981	1980	**1982**	1981	1980
Sales	$13,252,699	$12,491,852	$11,518,993	$2,569,717	$2,404,972	$2,190,917
Gross profit	3,128,111	2,815,057	2,576,021	549,112	504,543	449,339
Operating and administrative expenses	2,921,505	2,688,571	2,424,175	452,170	410,701	357,894
Operating profit	206,606	126,486	151,846	96,942	93,842	91,445
Income before provision for income taxes	110,199	21,050	70,283	93,387	103,256	95,263
Provision for income taxes	34,090	(6,007)	18,735	41,902	47,011	42,761
Net income	76,109	27,057	51,548	51,485	56,245	52,502
Net working capital including merchandise inventories at FIFO cost	534,744	277,160	229,099			
Less LIFO reductions	289,450	276,339	256,093			
Net working capital (deficit)	95,294	821	(26,994)	135,108	150,681	161,428
Total assets	2,838,416	2,675,569	2,461,407	619,486	578,281	518,702
Net assets	559,389	532,185	566,909	365,767	430,063	372,197
Cumulative translation adjustments				(54,219)	(40,362)	(41,806)

*Reflects the LIFO method of valuing certain inventories.

Note Q—Quarterly Information (unaudited)

	First 12 Weeks	Second 12 Weeks	Third 12 Weeks	Last 16/17 Weeks*
1982				
Sales	$3,983,793	$4,045,193	$4,093,348	$5,510,487
Gross profit	878,993	912,313	934,135	1,279,328
Net income	16,029	42,115	39,117	62,399
Net income per share	.61	1.61	1.50	2.39
Cash dividends per share	.65	.65	.65	.70
Market price range of common stock	29⅜-26¼	30⅞-27⅝	37¼-28¼	50¼-36½
1981				
Sales	3,589,307	3,781,112	3,943,663	5,266,236
Gross profit	789,964	819,667	851,143	1,173,621
Net income	15,272	26,197	15,483	47,332
Cash dividends per share	.74	1.00	.59	1.82
Market price range of common stock	37¾-29⅝	37-32¼	33½-26	28-24½
1980				
Sales	3,255,936	3,352,564	3,491,539	5,002,634
Gross profit	679,270	743,659	768,240	1,094,771
Net income	14,138	34,998	31,180	48,822
Cash dividends per share	.54	1.34	.19	1.87
Market price range of common stock	36¼-27½	33¾-27⅝	34¾-30	34¼-26

Note: Dollars are in thousands except per share figures. Dividends are for calendar quarters.
*See Note A—Merchandise Inventories.

Executive Offices
Fourth and Jackson Streets, Oakland, California 94660
(415) 891-3000

Transfer Agent and Registrar
The Crocker National Bank, San Francisco, California

10-K Report
A facsimile of Safeway's 1982 10-K *Report* filed with the Securities and Exchange Commission may be obtained by writing the Controller at our executive offices.

Accountants
Peat, Marwick, Mitchell & Co.

Annual Meeting
The 1983 Annual Meeting of Stockholders will be held on May 17, 1983. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed April 14, 1983. This Annual Report does not constitute part of the proxy soliciting material.

	Overseas	
1982	1981	1980
$1,810,405	$1,683,494	$1,392,763
327,546	314,795	260,580
279,886	264,206	217,061
47,660	50,589	43,519
44,674	42,040	38,136
12,608	17,058	13,048
32,066	24,982	25,088
(12,278)	(38,583)	(20,249)
432,531	398,465	353,432
211,939	112,850	116,581
(41,823)	(26,052)	(3,635)

Accountants' Report **Peat, Marwick, Mitchell & Co.**

To the Board of Directors and Shareholders of Safeway Stores, Incorporated.

We have examined the consolidated balance sheet of Safeway Stores, Incorporated and subsidiaries as of January 1, 1983, January 2, 1982 and January 3, 1981 and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at January 1, 1983, January 2, 1982 and January 3, 1981 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for foreign currency translation as described in Note B to the financial statements.

Peat, Marwick, Mitchell & Co.

Oakland, California
March 4, 1983

Management's Responsibility for Financial Statements

The consolidated financial statements of Safeway Stores, Incorporated and its subsidiaries have been prepared in accordance with generally accepted accounting principles and necessarily include amounts that are based on management's best estimates and judgments. Management is responsible for the integrity and objectivity of the data in these statements. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

To fulfill its responsibilities, management has developed and maintained a strong system of internal accounting controls. There are inherent limitations in any control system in that the cost of maintaining a control should not exceed the benefits to be derived. However, management believes the controls in use are sufficient to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements. The controls are supported by careful selection and training of qualified personnel, by the appropriate division of responsibilities, by communication of written policies and procedures throughout the company, and by an extensive program of internal audits.

Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report follows the consolidated financial statements, are engaged to provide an independent opinion regarding the fair presentation in the financial statements of the company's financial condition and operating results. They obtain an understanding of the company's systems and procedures and perform tests of transactions and other procedures sufficient to provide them reasonable assurance that the financial statements are neither misleading nor contain material errors.

The Board of Directors, through its Audit Committee composed of outside Directors, is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements. The Board, on the recommendation of the Audit Committee and in accordance with stockholder approval, selects and engages the independent public accountants. The Audit Committee meets with the independent accountants to review the scope of the annual audit and any recommendations they have for improvements in the company's internal accounting controls. To assure independence, the independent accountants have free access to the Audit Committee and may confer with them without management representatives present.

NEW DIRECTIONS IN DESIGN

Of all the changes Safeway made during 1982, perhaps none is more indicative of the changing retail food industry than the new superstore formats developed for us by the Doody organization of Columbus, Ohio. Even design is becoming a competitive tool in supermarketing, and Doody is renowned for its ability to increase sales through innovative architecture and interior layouts in other types of retail stores.

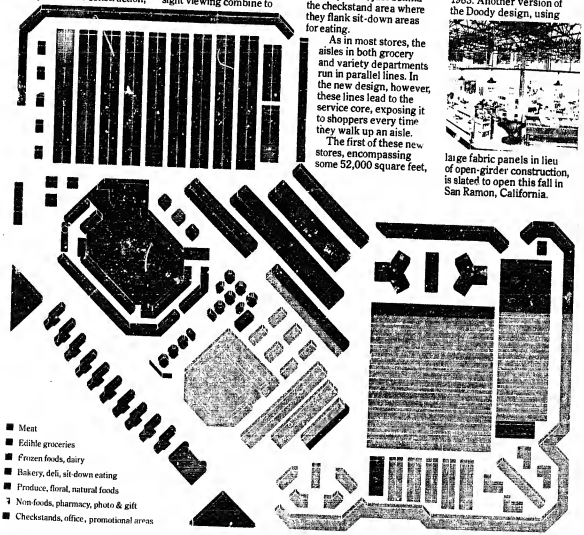
Space-frame construction, bold colors, larger-than-life photomurals to identify departments, and low-profile shelving for line-of-sight viewing combine to give customers a fresh new environment to help make shopping more fun.

In keeping with Safeway's emphasis on one-stop shopping, the new stores contain a full range of specialty and service departments. In conventional Safeway superstores, pharmacy, floral, bakery, deli, and other service operations go on the perimeter along with meat, produce and dairy. The new formats, in contrast, put them up front, just behind the checkstand area where they flank sit-down areas for eating.

As in most stores, the aisles in both grocery and variety departments run in parallel lines. In the new design, however, these lines lead to the service core, exposing it to shoppers every time they walk up an aisle.

The first of these new stores, encompassing some 52,000 square feet, made its debut in September in Broken Arrow, Oklahoma, just outside Tulsa. A larger version, spanning nearly 61,000 square feet and incorporating skylights to enhance the merchandise, opened in November in Arlington, Texas. A schematic of this suburban Dallas store is reproduced below.

A third, almost identical to the Arlington store, opened in Garland—also near Dallas—in January of 1983. Another version of the Doody design, using large fabric panels in lieu of open-girder construction, is slated to open this fall in San Ramon, California.



EXECUTIVE OFFICERS

Peter A. Magowan
Chairman and Chief Executive Officer

Dale L. Lynch
President and Chief Operating Officer

John Bell
Vice President and
Regional Manager—Retail

E.J. Dale
Vice President
Counsel

Edward M. Nemsky
Senior Vice President
Supply Operations

Philip A. Norton
Vice President
Chief Officer, Engineering
and Quality Assurance

Bailey V. Lemmon
Senior Vice President
Manufacturing, Distribution and Services

Fred E. Meadows
Vice President
Regional Manager—Retail

William R. Mahoney
Vice President
Regional Manager—Retail

John H. Peterson
Senior Vice President—Marketing

John C. Thomas
Senior Vice President
Human Resources

James A. Shoup
Senior Vice President—Retail

Harry D. Sandiland
Senior Vice President—Finance
Treasurer

Robert J. Van Ressen
Senior Vice President—Law
Secretary and General Counsel

OTHER OFFICERS

Vice Presidents—Retail
Burton R. Beckworth
Donald H. Downs
John A. Durnbaw
Donald V. Cartright
Dave A. Ford

Allen Francis
Albert J. Fisher
Stuart Gelar
Robert E. Kimball
Rene J. Lamore

William D. Lewis
John R. Maxwell
Donald J. Phelps
Eugene V. Pratt
Carl E. Roberts
Dennis J. Teets

Elden W. Barker
Robert H. Taylor
Hugh D. Ward
Richard J. Wilson
Forrest Woolery

Vice Presidents—Supply
J. L. Alo

Roland Fiveright
John D. Lyding

Harold T. Nelson
Herbert J. Schoenhalz

Thomas C. Terry

Vice Presidents—Service
Gaylord H. Hansen
Gordon W. Jones
William E. Kaylor

William W. Linstrom
Robert M. Lyons
Harold L. McKinney
George D. Marshall

John E. Morris
Harvey E. Rice
Calvin P. Tice
John L. Perry

Bernard Bonnes
Frank H. Brandt
Patrick N. Sabatini
Ronald F. Sweeney

FOREIGN SUBSIDIARY OPERATIONS

CANADA SAFEWAY LIMITED*
A. R. Ainsworth
Chairman of the Board
President and Chief Executive Officer

Vern E. Perley
Vice President and
Retail Division Manager

Reginald D. Ziegler
Vice President and
Retail Division Manager

Robert F. Hendy
Vice President and
Retail Division Manager

Robert H. Kinzie
Vice President and
Retail Division Manager

Norman M. Kosher
Vice President and
Retail Division Manager

Donald L. Olson
Vice President and
Retail Division Manager

SAFEWAY FOOD STORES LIMITED
(United Kingdom)
T. E. Byrne
Chairman, Managing Director and
Retail Division Manager

AUSTRALIAN SAFEWAY LIMITED
(Australia)
J. W. H. Pratt
Chairman, Managing Director and
Retail Division Manager

"SAFEWAY" SUPERMARKT GmbH
(West Germany)
Manfred J. Plank
Chairman, Managing Director and
Retail Division Manager

JOHS. EBBARCH'S ETTF. A/S
(Denmark)
Niels Borregaard
General Manager

*Effective March 29, 1963, Robert H. Kinzie was elected President and Chief Executive Officer of Canada Safeway Limited and Vern E. Perley became Chairman of the Board. A. R. Ainsworth retained as an employee, but continues as a Director.

Note: Above indicates titles as of June 30, 63

Harvey K. Nolte, 40, VP, Assistant Treasurer and Corporate Cash Management Dept. Manager. Directs systems in our U.S. and Canadian operations that relate to cash investments, currency investments and short-term borrowings.

Patrick S. Totman, 38, VP and Real Estate Finance Dept. Manager. Obtains long-term lease and mortgage financing for company properties and capital equipment. Last year he raised $177 million at favorable rates in a difficult economic environment.

Robert D. Reynolds, 39, Manager, Office of Corporate Strategic Planning and Development. Coordinates development of Safeway's strategic planning process and related consumer research activities.

Thomas J. Conway, 36, Communications Div. Manager. Transmits information about the company to employees, stockholders, customers and the outside public.

Robert A. George, 44, Engineering Div. Manager. Supervises design and construction of the company's warehouses and food processing plants.

Ronald D. Parmalee, 39, Store Level Systems Div. Manager. Oversees the installation and application of computerized scanning and electronic checkstand equipment.

Arthur L. Peterson, 41, Grocery Merchandising Div. Manager. Has corporate merchandising responsibility for national brand grocery items.

Steven C. Boone, 34, Liquor Barn Operations Manager. Has operating and marketing authority for the company's Liquor Barns.

Patrick L. Kiernan, 37, Industrial Engineering Dept. Manager. Develops productivity-improvement programs and monitors their effectiveness.

Wayne Lander, 44, Corporate Deli Merchandising Manager. Is responsible for development of corporate merchandising programs for deli and specialty cheese shop operations.

Gregory B. Plunkett, 31, Corporate Natural Foods Merchandising Manager. Coordinates merchandising efforts related to natural foods.

MANAGERS ON THE MOVE

Last year's Annual Report focused on senior management. This year we are introducing some key middle managers on the corporate office staff.

They have much in common: Most have been promoted to their present positions within the past three years, many have retail store experience, and more than half have earned post-graduate degrees.

Like their counterparts in our retail divisions and supply operations, all have proven their ability to turn ideas into action. All are committed to excellence in everything they do.

Together they represent one of Safeway's greatest strengths for the future: a seasoned group of well-trained, highly motivated, results-oriented administrators.

Following is a partial listing of those at corporate headquarters charged with key roles in achieving our newly formulated objectives in the years ahead:

F. J. Dein, 38, Executive Officer, VP and Controller. Duties cover corporate accounting, financial planning, risk management, taxes, security, consumer financial services and general administration.

George D. Marshall, 42, VP and Industrial Relations Div. Manager. Has overall responsibility for negotiating the company's 1,200 labor contracts.

Gerald L. McGinnis, 44, VP and Real Estate Div. Manager. Directs company's real estate activities and manages its real estate assets.

John L. Morris, 40, VP, Corporate Economist and Economics Div. Manager. Evaluates and projects economic trends, and determines how they are likely to affect the company's business.

Frank D. Sruber, 47, VP and Meat Merchandising Div. Manager. Advises administrative executives and the company's retail divisions on matters pertaining to meat operations.

Ronald C. Zachary, 44, VP and Personnel Services Div. Manager. Oversees group insurance, pension and compensation programs for non-union employees.